

## Message Text

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S E C R E T SECTION 1 OF 6 USNATO 6453

C O R R E C T E D C O P Y (FOR REF NUMBER USNATO 6454)

DEPT PASS SECRETARY'S PARTY

E.O. 11652: GDS  
TAGS: PFOR, NATO, XF, UK

SUBJECT: REINFORCED NAC SESSION ON SITUATION IN THE MIDDLE EAST,  
NOVEMBER 20, 1974

REF: USNATO 6454

THE UK DELEGATION SUBMITTED THE FOLLOWING PAPER OF HMG ASSESSMENT  
OF THE SITUATION IN THE MIDDLE EAST TO THE SYG AND ALL PERMREPS ON 19  
NOVEMBER IN PREPARATION FOR THE 20 NOVEMBER REINFORCED NAC DISCUSSION  
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ON THE SAME TOPIC.

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### PART I-SUMMARY

1. THIS PAPER SEEKS TO ASSESS THE DANGER OVER THE NEXT FEW MONTHS OF  
A SERIOUS DETERIORATION IN THE ARAB/ISRAEL SITUATION, SUCH AS MIGHT

PROVOKE RENEWED HOSTILITIES AND/OR RENEWED ARAB ACTION IN THE OIL OR FINANCIAL CONTEXTS. THE RABAT SUMMIT WILL MAKE DR KISSINGER'S TASK MORE DIFFICULT. WE ARE, HOWEVER, CONCERNED NOT WITH THE DETAILED COURSE OF NEGOTIATIONS BUT WITH THE UNDERLYING DANGERS THAT WILL MATERIALISE IF THE MOMENTUM OF NEGOTIATIONS CANNOT BE MAINTAINED.

(PARAGRAPHS 1-3.)

2. NEITHER EGYPT NOR SYRIA IS AT PRESENT UNDER STRONG INTERNAL PRESSURE TO RESUME FIGHTING OR CALL FOR NEW ACTION OVER OIL. THE RUSSIANS PROBABLY DO NOT WANT ANOTHER MAJOR ARAB/ISRAEL CRISIS BUT ARE NOT IN A

POSITION TO EXERCISE A DECISIVE INFLUENCE FOR RESTRAINT. THE ISRAELIS, WHILE PROBABLY PREPARED TO MAKE SOME CONCESSIONS, ARE UNLIKELY TO MAKE

THE SUBSTANTIAL CONCESSIONS ON THE KEY ISSUES NEEDED FOR A GENERAL SETTLEMENT. IF THE ARABS SEE NEGOTIATIONS RUNNING INTO THE SANDS THEIR ACTIONS COULD TAKE A NUMBER OF FORMS. (PARAGRAPHS 4-7.)

3. ANOTHER CONCERTED ATTACK BY EGYPT AND SYRIA IS AN UNLIKELY CONTINGENCY. SADAT AT PRESENT SEES OTHER LESS DANGEROUS AVENUES OF PROGRESS. EVEN IN THE EVENT OF PROLONGED POLITICAL STALEMATE HE WOULD PROBABLY PREFER ACTION OVER OIL TO RENEWED FIGHTING. (PARAGRAPHS 8-12.)

4. A FULL-SCALE MILITARY ATTACK BY SYRIA IS A MUCH MORE LIKELY CONTINGENCY. THE SYRIAN INTERNAL POLITICAL SITUATION IS VOLATILE AND THE SYRIANS MIGHT CALCULATE ON SADAT BEING DRAGGED IN AND THE RUSSIANS BEING COMPELLED TO SUPPLY ARMS. UNDOF IN ITSELF IS NOT LIKELY TO BE AN EFFECTIVE DETERRENT. (PARAGRAPHS 13-17.)

5. LIMITED MILITARY ACTION BY SYRIA IS MORE LIKELY STILL. IT COULD ESCALATE INTO FULL-SCALE HOSTILITIES OR PROMPT AN ISRAELI PRE-EMPTIVE ATTACK. (PARAGRAPHS 18-19.)

6. THE ISRAELIS MIGHT THEMSELVES SEE ADVANTAGE IN RAISING TENSION  
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TO THE POINT WHERE THEY COULD JUSTIFY A PRE-EMPTIVE ATTACK IF UNDER STRONG PRESSURE FOR CONCESSIONS OR IF CONCERNED THAT THEIR RELATIVE POSITION WAS WEAKENING. (PARAGRAPH 30.)

7. THE OIL WEAPON WOULD PROBABLY BE REACTIVATED IN THE EVENT OF LARGE-SCALE FIGHTING. IT COULD ALSO BE USED IF THE ARABS SAW A STALEMATE IN NEGOTIATIONS EVEN IF THERE WERE NO FIGHTING. THE ARABS MAY ALSO RESORT TO IT IF THEIR EMOTIONS WERE AROUSED FOLLOWING EVEN LIMITED HOSTILITIES. FEISAL WOULD BE THE KEY FIGURE AND HE IS LIKELY TO MOVE CAUTIOUSLY. OTHER ARAB STATES, LIBYA APART, WOULD PROBABLY FOLLOW HIS LEAD. (PARAGRAPHS 21-23.)

8. ACTION OVER OIL WOULD TAKE TWO MAIN FORMS: A. CUTBACKS, B. EMBARGOES. SPECIFIC ACTION ON PRICES IS UNLIKELY, THOUGH FEISAL MAY SEEK TO LINK PRICING POLICY WITH SUCCESSFUL NEGOTIATIONS.

NATIONALISATION IS ALSO UNLIKELY AS A POLITICAL WEAPON. (PARAGRAPHS 24-26.)

9. CUTBACK WOULD BE INSIDCRIMINATE. THE ARABS ARE NOW MORE AWARE THAN LAST YEAR OF THE INTERDEPENDENCE BETWEEN THEIR OWN PROSPERITY AND

THAT OF THE WEST. BUT WE THINK THEY COULD REINTRODUCE PRODUCTION CUTBACKS PROBABLY TO THE HIGHEST LEVEL REACHED A YEAR AGO, IE 25 PERCENT.

IN THE EVENT OF MAJOR FIGHTING THE LEVEL COULD BE HIGHER. PARAGRAPH 27.)

10. THE ARABLS MIGHT ATTEMPT A MORE SOPHISTICATED USE OF SELECTIVE EMBARGOES AND FAVOURED NATIONS POLICIES THAN A YEAR AGO WITH THE OBJECT OF PREVENTING THE OIL COMPANIES EFFECTIVELY APPLYING THEIR "EQUAL MISERY" POLICY. THE INTERNATIONAL ENERGY PROGRAMME, IF IT COMES INTO EFFECT, COULD HOWEVER PROBABLY PREVENT THEM FROM OPERATING EFFECTIVELY.

(PARAGRPAH28.)

11. ON ANY RATIONAL ANALYSIS WE MUST CONCLUDE THAT THE ARABS WILL FIND THE FINANCIAL WEAPON TOO DIFFICULT AND RISKY TO USE. THEY HAVE LITTLE ALTERNATIVE BUT TO KEEP THEIR MONEY WITHIN THE WESTERN SYSTEM AND ANY UNDERMINING OF CONFIDENCE THROUGH ATTEMPTED MANI-SECRET

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PULATION OF THE MONEY MARKETS COULD SERIOUSLY REBOUND ON THE ARABS THEMSELVES. WE MUST HOWEVER MAKE SOME ALLOWANCE FOR THE POSSIBILITY OF IRRATIONAL ARAB ACTION IN AN EMOTIVE SITUATION. (PARAGRAPH 29-31.)

12. WE CANNOT PRETEND TO GIVE AN ACCURATE PREDICTION ON WHEN THE VARIOUS DANGERS OUTLINED ABOVE MIGHT MATERIALISE SINCE SO MUCH DEPENDS ON FACTORS SUCH AS THE ATTITUDES OF THE ISRAELIS AND ARABS. BUT WE DO NOT THINK WE CAN EXPECT ANOTHER YEAR FREE FROM MAJOR HOSTILITIES UNLESS THERE IS IMPORTANT PROGRESS ON THE BASIC INTRACTABLE ISSUES. WE WOULD EXPECT THE UNDOF MANDATE TO BE RENEWED BUT THE DANGER PERIOD TO BEGIN SHORTLY AFTERWARDS IN THE EARLY MONTHS OF 1975. THE MAIN DANGER IS LIKELY TO ARISE ON THE SYRAIN FRONT,

EITHER AS A RESULT OF SYRIAN FRUSTRATION OR SERIOUS ISRAELI CONCERN ABOUT THEIR POSITION. SYRIAN MILITARY ACTION COULD WELL LEAD TO EGYPTIAN INVOLVEMENT AND THE APPLICATION OF THE OIL WEAPON. IF THERE WAS IN ARAB EYES A POLITICAL STATLEMATE, THEN WE ALSO THINK IT POSSIBLE THAT THE ARABS WOULD REACTIVATE THE OIL WEAPON WITHOUT THE SYRIANS RESORTING TO HOSTILITIES, THOUGH THIS COULD BE IN SLOWER TIME. (PARAGRAPH 32.)

## PART II: MAIN REPORT

### INTRODUCTION

THIS PAPER SEEKS TO ASSESS THE DANGER OVER THE NEXT FEW MONTHS OF A SERIOUS DETERIORATION IN THE ARAB/ISRAEL SITUATION, SUCH AS MIGHT PROVOKE RENEWED HOSTILITIES AND / OR RENEWED ARAB ACTION IN THE OIL OR FINANCIAL CONTEXTS.

2. IT IS NOW A YEAR SINCE THE YOM KIPPUR WAR. THERE HAVE BEEN NO MAJOR ARAB/ISRAEL HOSTILITIES SINCE THEN. THERE HAS BEEN SOME PROGRESS, ALBET VERY LIMITED, TOWARDS A NEGOTIATED SETTLEMENT. OIL EMBARGOES HAVE BEEN ABOLISHED THOUGH OIL PRICES HAVE QUINTUPLED. AMERICAN DIPLOMACY CAN RECORD IMPORTANT SUCCESSES. THE FACT THAT WE HAVE SURVIVED SO LONG WITHOUT MAJOR ACCIDENTS MAY SUGGEST THAT SOME OF THE HEAT HAS GONE OUT OF THE SITUATION.

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BUT, DESPITE INITIAL DISENGAGEMENTS ON THE SINAI AND SYRAIN FRONTS, THE MAJOR ISSUES REMAIN UNRESOLVED. THESE INCLUDE IN PARTICULAR THE PALESTINIAN PROBLEM, THE FUTURE OF THE WEST BANK, SINAI, THE GOLAN HEIGHTS AND JERUSALEM. AS TIME GOES WITHOUT MAJOR ISRAELI CONCESSIONS IN THESE FIELDS THE ARABS ARE BOUND TO FEAR THAT THEY HAVE BEEN TRICKED INTO ACQUIESCING ONCE AGAIN IN A NO-PEACE NO-WAR SITUATION. WE ARE ENTERING A PERIOD IN WHICH THE PARTIES CONCERNED ARE CONSIDERING AND TAKING DECISIONS ON THE OPTIONS OPEN TO THEM: ARAB LEADERS HAVE JUST HELD A SUMMIT MEETING IN RABAT, THE DEBATE IN THE UN GENERAL ASSEMBLY ON PALESTINE WILL TAKE PLACE SOON AND THE RENEWAL OF THE UNDOF MANDATE ON THE GOLAN HEIGHTS IS DUE BY 30 NOVEMBER. (THE UNEF MANDATE WAS RENEWED ON 23 OCTOBER FOR A FURTHER 6 MONTHS.) DR KISSINGER HAS PAID A FURTHER ROUND OF VISITS TO THE MIDDLE EAST.

3. THE PRINCIPAL DETERMINANT OF THE MIDDLE EAST AND HENCE ANY WEIDER CRISIS WILL BE THE PACE OF MOVEMENT TOWARDS ON ARAB/ISRAEL SETTLEMENT WHICH MOST ARAB STATES APRE PREPARED TO ACCEPT. WE SHALL NOT ATTEMPT IN THIS PAPER TO TRACE THE LIKELY COURSE OF NEGOTIATIONS.  
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THE ISSUES ARE COMPLES AND INTERLINKED AND ARE FURTHER COMPLICATED BY DIFFERING ATTITUDES AMONG THE ARABS AND WITHIN ISRAEL. THE RABAT SUMMIT DECISIONS BRING INTO DOUBT THE WHOLE CONCEPT OF A PIECEMEAL APPROACH TO A SETTLEMENT AND WILL MAKE IT MORE DIFFICULT FOR THE ISRAELIS TO MAKE CONCESSIONS. DR KISSINGER'S TASK WILL

THUS BE MADE MORE DIFFICULT. WHAT WE ARE CONCERNED WITH HERE IS RATHER THE UNDERLYING DANGERS WHICH WILL MATERIALISE IF THE PACE OF NEGOTIATIONS CANNOT BE SUSTAINED. WE TRY TO IDENTIFY THESE DANGERS AND TO GIVE SOME IDEA OF THEIR IMMINENCE.

PRESENT ATTITUDES.

4. NEITHER EGYPT NOR SYRIA IS AT THIS MOMENT UNDER STRONG INTERNAL PRESSURE TO RESUME FIGHTING OR CALL FOR NEW ACTION OVER IOL. PRESIDENT SADAT SEES GOOD RELATIONS WITH THE UNITES STATES AS BEST BEST MEANS OF ACHIEVING A NEGOTIATED SETTLEMENT; HE WILL DO MUCH TO AVOID BECOMING INVOLVED IN FURTHER FIGHTING. A PARTIAL SETTLEMENT WITH ISRAEL ON SINAI IS PROBABLY WITIN HIS REACH, DESPITE A POSSIBLE COMPLICATION OVER THE ABU REDEIS OILFIELDS, BUT THE PRESSURES ON HIM TO LINK PROGRESS ON SINAI WITH MOVEMENT ON THE PLAESTINIAN AND OTHER ISSUES ARE VERY STRONG. THE SYRIANS SEE DISENGAGEMENT ON THE GOLAN HEIGHTS AS A FIRST STEP TOWARDS THE RECOVERY OF ALL THE TERRITORY LOST IN 1967 AND WILL NOT ACCEPT AN INDEFINITE FREEZING OF THE EXISTING SITUATION. PRESIDENT ASSAD HAS AT PRESENT A RELATIVELY UNITED BA'ATH PARTY BEHIND HIM. BUT THIS UNITY IS FRAGILE; THE SYRIAN INTERNAL SITUATION IS BOTH MORE OBSCURE AND VOLATILE THAN THAT IN EGYPT; AND ASSAD WOULD BE MUCH MORE LIKELY TO RESORT TO MILITARY ACTION THAN SADAT IF HE BECAME DISSATISFIED WITH THE NEGOTIATIONS. THE RABAT SUMMIT DECISION TO GIVE PRIORITY TO THE STATUS OF THE PLO COULD LEAD TO INTERNAL DIFFICULTIES FOR JUSSEIN. THIS COULD IN TURN LEAD TO A NEW AREA OF HEIGHTENED TENSION ON ISRAEL'S BORDERS; BUT WE ASSUME FOR THE PURPOSE OF THIS PAPER THAT JORDAN REMAINS STABLE.

5. THE RUSSIANS, THOUGH ANXIOUS TO SECURE A GREATER SHARE OF LIME-LIGHT IN MIDDLE EAST NEGOTIATIONS AND TO RECOVER LOST INFLUENCE IN THE

AREA, CONTINUE TO GIVE PRIORITY TO THEIR RELATIONS WITH THE UNITED  
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STATES AND ARE GENERALLY FAVOURABLE TO ARAB MILITARY RESTRAINT AND TO NEGOTIATION. THEY PROBABLY DO NOT WANT ANOTHER MIDDLE EAST WAR,

GIVEN THE UNPREDICTABLE NATURE OF THE SITUATION IF COULD PRODUCE, IN PARTICULAR THE RISKS TO UNITED STATES/SOVIET REALATIONS. BUT THEY WILL NOT GO TO THE STAKE TO STOP THE ARABS: THEY HAVE THEIR POSITION IN THE ARAB WORLD TO CONSIDER. NOR, AS THEY PROBABLY RECOGNISE, WOULD THEY BE LIKELY TO SUCCEED IF THE ARABS HAD MADE UP THEIR MINDS ON THIS ISSUE. AGAIN, THEY HAVE LITTLE INFLUENCE ON ARAB USE OF THE OIL WEAPON: THE FINAL DECISIONS LIE WITH TRADITION-

ALISTS ARAB STATES LIKE SAUDI ARABIA. THUS THE RUSSIANS, THOUGH CLOSELY INTERESTED IN THE DEVELOPMENT OF THE SITUATION. ARE NOT IN A POSITION TO EXERCISE A DECISIVE INFLUENCE FOR RESTRAINT ON THE ARABS.

6. THE ISRAELI ATTITUDE TO THESE PROBLEMS WILL BE CRUCIAL. BEFORE THE RABAT SUMMIT THE PRIME MINISTER, MR RABIN, HAD SPOKEN OF NEW MAPS AND FURTHER INTERIM ARRANGEMENTS AND WE BELIEVE THERE IS AMONGST MANY ISRAELIS A RECOGNITION OF THE NEED FOR COMPROMISE. BUT THE ISRAEL

GOVERNMENT FACES A VOCAL OPPOSITION, RECENTLY REINFORCED BY THE SUPPORT OF GENERAL DAYAN, WHO DO NOT WISH TO SEE ANY SIGNIFICANT CONCESSIONS. THE DECISIONS OF THE RABAT SUMMIT WILL HAVE FURTHER STRENGTHENED THIS OPPOSITION. THE GOVERNMENT IS IN ANY EVENT COMMITTED TO PUTTING ANY INTENDED CONCESSIONS ON THE WEST BANK TO THE ELECTORATE, THUS DELAYING ANY RATIFICATION OF AN AGREEMENT FOR ABOUT 4 MONTHS. EVEN AMONG THOSE ISRAELIS WHO ARE PREPARED TO SEE SOME CONCESSIONS TO THE ARABS, SUSPICION OF ARAB INTENTIONS REMAINS DEEPLY ROOTED. ON THE WHOLE WE DOUBT WHETHER THE ISRAELI LEADERS WILL BE READY TO MAKE THE MAJOR CONCESSIONS OVER THE CRUNCH ISSUES THAT WILL BE NEEDED FOR A GENERAL SETTLEMENT. THE FACT THAT ISRAEL HAS HELD ITS POSITION SINCE LAST YEAR WITHOUT MAKING FUNDAMENTAL CONCESSIONS IS LIKELY TO ENCOURAGE THEM IN A TOUGH ATTITUDE.

THE DANGERS

7. IF THE ARABS SEE NEGOTIATIONS RUNNING INTO THE SANDS, THEIR ACTIONS COULD TAKE A NUMBER OF FORMS. THERE COULD BE A FULL-SCALE

ATTACK BY EGYPT AND SYRIA IN CONCERT ON THE SINAI AND GOLAN  
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FRONTS. THERE COULD BE A RESUMPTION OF FIGHTING BY SYRIA ALONE, EITHER ON A FULL OR LIMITED SCALE. SHOULD THE ISRAELIS FEEL SUFFICIENTLY THREATENED BY ANY OF THESE POSSIBILITIES, THEY COULD RESORT TO A PRE-EMPTIVE STRIKE. A TENSE SITUATION COULD BE COMPLICATED BY RENEWED TERRORIST ATTACKS BY PALESTINIANS ON ISRAEL AND ISRAELI RETALIATION. THERE IS ALSO A DANGER OF UNPREMEDIATED HOSTILITIES AS A RESULT OF ESCALATION FROM MINOR INCIDENTS. THE OIL WEAPON COULD BE RE-ACTIVATED EITHER INSTEAD OF MILITARY ACTION, OR IN THE WAKE OF, OR CONCURRENTLY WITH, EITHER FULL-SCALE OR LIMITED HOSTILITIES. THE FINANCIAL WEAPON MIGHT ALSO BE USED ON SOME FORM. WE CONSIDER

THESE DANGERS BELOW, THOUGH NOT IN ORDER OF LIKELIHOOD.

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CONCERTED ATTACK BY EGYPT AND SYRIA

8. THE AIM OF SUCH AN ATTACK WOULD BE TO BREAK OUT OF POLITICAL STATEMATE IN THE MANNER OF OCTOBER 1973. THE EGYPTIANS AND SYRIANS MIGHT HOPE TO REGAIN MORE TERRITORY BEFORE THE WAR WAS STOPPED. BUT THEIR MAIN HOPE WOULD BE GALVANISE ARAB SUPPORT, REVIVE THE OIL WEAPON AND APPLY POLITICAL, ECONOMIC AND POSSIBLY FINANCIAL PRESSURES THAT WOULD FORCE THE AMERICANS AND OTHER WESTERN COUNTRIES TO WRING FURTHER CONCESSIONS ON THE ISRAELIS.

9. THE EGYPTIANS AND SYRIANS WOULD BE TAKING A CONSIDERABLE MILITARY REISK BY RESUMING HOSTILITIESS. BOTH SIDES HAVE NOW BEEN RE-EQUIPPED: SYRIA AND ISRAEL ARE PROBABLY NOW IN A BETTER MILITARY POSITION BOT QUANTITATIVELY AND QUALITATIVELY THAN THEY WERE PRIOR TO THE WAR IN OCTOBER 1973. ON THE OTHER HAND EGYPT HAS RECIEVED NO SIGNIFICANT SUPPLIES OF NEW OF SOPHISTICATED EQUIPMENT SINCE THE END OF

LAST YEAR AND THERE IS SOME EVIDENCE THAT SADAT

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THINKS HE HAS FEWER JET AIRCRAFT THAN HE NEEDS. WE BELIEVE THAT

THE ISRAELIS WILL CONTINUE TO HAVE A CONSIDERABLE EDGE OVER THE ARABS IN THEIR ABILITY TO MAKE AND SEIZE TACTICAL AND STRATEGIC OPPORTUNITIES. IN ADDITION ISRAELI MOBILIZATION PLANS HAVE BEEN STREAMLINED AND GREATLY STRENGTHENED. ISRAELI FORCES ARE ON CONSTANT ALERT AND THE ELEMENT OF SURPRISE THAT WAS AN IMPORTANT FACTOR IN OCTOBER 1973 HAS BEEN VIRTUALLY ELIMINATED. AS AGAINST THIS THE ARABS MIGHT RECKON ON INTERNATIONAL INTERVENTION BRINGING FIGHTING TO AN END BEFORE THEIR LOSSES BECAME TOO HEAVY; THEY COULD ALSO SEE THE FIGHTING AS MAINLY A TRIGGER FOR THE MORE IMPORTANT OIL SANCTIONS, ESPECIALLY IF THEY HAD FAILED TO PERSUADE THE ARAB OIL PRODUCERS TO REACTIVATE THE OIL WEAPON WITHOUT HOSTILITIES.

10. THE EGYPTIANS WOULD BE SUBJECT TO A NUMBER OF OTHER IMPORTANT CONSTRAINTS. MILITARILY, THEY ARE IN A RELATIVELY WEAK POSITION ON THE EAST BANK OF THE SUEZ CANAL WHERE THEY HOLD A NARROW STRIP OF TERRITORY WITH ONLY SOME 7,000 MEN AND LIMITED TANK AND ARTILLERY SUPPORT. THEY ARE SEPARATED FROM THE ISRAELIS BY A BUFFER ZONE, A LIMITED ARMS ZONE AND THE PRESENCE OF THE 7,000-STRONG UNEF (WHICH IS MUCH MORE EFFECTIVE THAN THE PURELY OBSERVER FORCE ON THE SYRIAN/ISRAELI FRONTIER). THERE IS VIRTUALLY NO CHANCE OF SURPRISING THE ISRAELIS A SECOND TIME. POLITICALLY, SADAT'S NEW RELATIONSHIP WITH THE AMERICANS, BY WHICH HE SETS MUCH STORE, WOULD BE AT RISK. HIS PLANS FOR RE-OPENING THE SUEZ CANAL, RE-SETTLING THE TOWNS BORDERING THE CANAL AND FOR DEVELOPING THE EGYPTIAN ECONOMY IN GENERAL WOULD BE CASUALTIES. AGAINST THIS, SADAT WOULD NEED TO WEIGH THE INTERNAL PRESSURES WITHIN EGYPT, PARTICULARLY FROM THE ARMED FORCES, FOR FURTHER ACTION. AS POINTED OUT ABOVE, AT PRESENT WE DO NOT SEE THESE AS STRONG; BUT IN THE STALEMATE SITUATION ENVISAGED THEY COULD RAPIDLY INCREASE. HE WOULD ALSO NEED TO WEIGH THE CHANCES OF SOVIET RE-SUPPLY OF ARMS. IN VIEW OF HIS PAST DIFFERENCES WITH THE RUSSIANS, HE MIGHT WELL HESITATE UNTIL HE HAD RECEIVED AND ABSORBED SUBSTANTIAL SUPPLIES OF NEW MILITARY EQUIPMENT, WHICH ON PRESENT PATTERNS OF SUPPLY WOULD FOR SOME TIME YET HAVE TO COME FROM THE SOVIET UNION RATHER THAN

THE WEST. HE COULD HOWEVER CALCULATE THAT IN THE EVENT OF A FURTHER FULL-SCALE WAR THE RUSSIANS WOULD FEEL OBLIGED TO RE-SUPPLY HIM  
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IN ORDER TO MAINTAIN A POSITION OF INFLUENCE IN THE MIDDLE EAST; IF THEY DID NOT DO SO, RUSSIAN CREDIBILITY WITH OTHER ARAB STATES WOULD BE JEOPARDISED.

11. THE SYRIANS WOULD HAVE MUCH FEWER INHIBITIONS ABOUT A CONCERTED ATTACK. AN ADVANCE ASSURANCE OF CONCERTED ACTION BY THE EGYPTIANS ON THE SINAI FRONT WOULD BE OF MAJOR IMPORTANCE TO THEM; BUT IN VIEW OF THE MILITARY AND POLITICAL CONSTRAINTS ON EGYPT DESCRIBED ABOVE WE DOUBT WHETHER IN PRESENT CIRCUMSTANCES THIS WOULD BE FORTHCOMING.



12. IN GENERAL, BECAUSE OF THE CONSTRANITS ON THE EGYPTIANS AND BECAUSE SADAT AT PRESENT PROBABLY SEES OTHER LESS DANGEROUS AVENUES OF PROGRESS, WE SEE THIS SCENARIO OF A CONCERTED ATTACK AS AN UNLIKELY ONE. EVEN IN THE EVENT OF A PROLONGED POLITICAL STALEMEATE SADAT IS MORE LIKELY TO PREFER RESORT TO ACTION OVER OIL TO ANOTHER ROUND OF FIGHTING.

FULL SCALE MILITARY ACTION BY SYRIAN ALONE

13. IN VIEW OF THE RISK OF MILITARY DEFEAT, THE SYRIANS BEFORE LAUNCHING FULL SCALE MILITARY ACTIOCTION, WWOULD NEED TO ASSESS THE LIKELIHOOD OF EGYPTIAN INVOLVEMENT. WITHOUT A CONCERTED PLAN OF ACTION, WE BELIEVE THAT IN THE INITIAL STAGES THE EGYPTIANS WOULD ATTEMPT TO LIMIT THEIR MILITARY SUPPORT TO THE DESPATCH OF ARMS, AIRCRAFT AND TROOPS TO THE SYRIAN FRONT, THOUGH EVEN THIS WOULD POSE LOGISTIC PROBLEMS AND COULD INVITE ISRAELI RETALIATION ON THE EGYPTIANS. AT THE SAME TIME SADAT WOULD BE LIKELY TO TRY AND MOBILISE SUCH POLITICAL INFLUENCE AS HE CAN COMMAND IN SUPPORT OF THE SYRIANS; ALTHOUGH HE MIGHT MOT BE IN FULL AGREEMENT WITH SYRIAN OBJECTIVES OR METHODS, HE MIGHT AT LEAST HOPE TO MITIGATE THE PRESSURES FOR MILITARY INVOLVEMENT ON HIS PART. IN THIS CASE ONE OF HIS MAJOR OPTIONS COULD BE TO ASK FEISAL TO APPLY RENEWED OIL SANCTIONS. BUT SUCH A REQUEST WOULD CARRY ADDITIONAL WEIGHT WITH FEISAL SHOULD THE EGYPTIANS THEMSELVES BECOME INVOLVED IN HOSTILITIES THAT CARRIED WITH THEM THE PROSPECT OF MILITARY DEFEAT. WE THINK THE PRESSURES ON SADAT FOR DIRECT MILITARY INVOLVEMENT COULD IN A RELATIVELY SHORT TIME PROVE IRRESISTIBLE. SYRIAN CALCULATIONS COULD REACH THE SAME CONCLUSION.

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14. SECONDLY, IN THE LIGHT OF THE VERY HIGH EQUIPMENT AND AMMUNITION ATTRITION RATES WHICH OCCURRED IN THE 1973 WAR, THE SYRIANS WOULD WISH TO SATISFY THEMSELVES THAT RUSSIA WOULD BE WILLING AND ABLE TO GUARANTEE A SIMILAR OR GREATER RESUPPLY OF ARMS IN THE EVENT OF RENEWED HOSTILITIES. WE HAVE STRONG RESERVATIONS ABOUT THE LIKELIHOOD OF RUSSIAN WILLINGNESS TO GIVE AN ADVANCE GUARANTEE OF THIS NATURE. ON THE OTHER HAND, THEY HAVE LITTLE MEANS OF PREVENTING A SYRIAN ATTACK AND THEY WOULD, IN THE EVENT OF WAR, NEED TO WEIGH THEIR ATTITUDE (AS IN 1973) IN THE OVERALL CONTEST NOT ONLY OF DETENTE BUT ALSO OF THE MAINTENANCE OF THEIR POSITION IN THE MIDDLE EAST. THE SYRIANS COULD CALCULATE THAT THE RUSSIANS MIGHT NOT BE ABLE TO AFFORD FAILURE TO RE SUPPLY THEM.

15. A THIRD FACTOR LIKELY TO AFFECT SYRIAN THINKING IS THE PRESENCE OF UNDOF. UNDOF IS LESS EFFECTIVE THAN UNEF BECAUSE, BY DEFINITION, IT IS AN "OBSERVER FORCE", NUMERICALLY WEAKER (1,250 AGAINST 7,000). NEVERTHELESS ON THE GOLAN HEIGHTS THERE IS A BUFFER ZONE BETWEEN 2 AND 6 KILOMETRES SIDE  
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RUNNING APPROXIMATELY ALONG THE 1967 CEASEFIRE LINE, WITH SOME VARIATIONS. ON EITHER SIDE OF THIS BUFFER ZONE THERE IS A 10 KILOMETRE SIDE ZONE INTO WHICH NEITHER ISRAEL NOR SYRIA CAN PUT MORE THAN 6,00 LIGHTLY ARMED TROOPS (EQUIVALENT TO ABOUT 2 BRIGADES), 75 TANKS AND ONLY 36 GUNS NOT EXCEEDING 122 MM (IE WITH A RANGE OF ABOUT 20,000 METRES). A SECOND ZONE, ALSO 10 KILOMETRES WIDE ON EITHER SIDE, WILL BE RESTRICTED TO 450 TANKS, 162 "MEDIUM " GUNS WITH A RANGE OF NOT MORE THAN 20 KILOMETRES. NO SURFACE TO SURFACE MISSILES ARE PERMITTED IN THESE ZONES AND NO SURFACE TO AIR MISSILES MAY BE STATIONED CLOSER THAN 25 KILOMETRES TO THE BOUNDARY OF THE UNITED NATIONS BUFFER ZONE. AIR FORCES OF THE 2 SIDES ARE NOT PERMITTED TO OPERATE IN THE BUFFER ZONE AIRSPACE. UNDOF IS RESPONSIBLE FOR POLICING THE 2 ZONES LYING EAST AND WEST OF THE BUFFER ZONE; THE BUFFER ZONE ITSELF HOWEVER IS UNDER SYRIAN CIVILIAN ADMINISTRATION.

16. UNDOF'S MAIN VALUE IS THAT IT PHYSICALLY SEPARATES THE SYRIAN AND ISRAELI ARMED FORCES AND REDUCES THE CHANCES OF A SUCCESSFUL SURPRISE ATTACK. WE DO NOT HOWEVER SEE UNDOF AS IN ITSELF AN EFFECTIVE DETERRENT TO SYRIAN ATTACK. THE UNDOF MANDATE REQUIRES A POSITIVE SECURITY

COUNCIL RESOLUTION EVERY 6 MONTHS; THIS IS NEXT DUE BY THE END OF NOVEMBER. INDICATIONS AT THE MOMENT ARE THAT THE SYRIANS WILL PROBABLY BE PREPARED TO ALLOW THE NEXT RENEWAL. SHOULD THEY, HOWEVER, RESIST RENEWAL OF THE MANDATE EITHER IN NOVEMBER OR ON SUBSEQUENT OCCASIONS WHEN IT FALLS DUE, IT IS UNLIKELY THAT THEY COULD BE FORCED TO ACCEPT IT. THEY COULD IN ANY CASE ASK FOR UNDOF'S REMOVAL AT ANY TIME. ANY ATTEMPT BY THE SYRIANS TO REMOVE UNDOF WOULD PROBABLY BE A POLITICAL MOVE DESIGNED TO WARN OF SYRIAN DISSATISFACTION OVER THE PACE OF NEGOTIATIONS. IF AT ANY STAGE UNDOF WERE REMOVED, THE DANGERS OF FIGHTING WOULD INCREASE. BOTH THE SYRIANS AND THE ISRAELIS WOULD PROBABLY ATTEMPT TO OCCUPY THE VACATED BUFFER ZONE. THE ISRAELIS MIGHT IN ANY CASE CONCLUDE THAT THE SYRIANS WERE INTENT ON REOPENING HOSTILITIES AND MIGHT THEREFORE MAKE A PRE-EMPTIVE STRIKE. ISRAELI WILLINGNESS TO RESUME NEGOTIATIONS WOULD CLEARLY BE PUT IN JEOPARDY.

17. THE SCENARIO OF A FULL SCALE SYRIAN ATTACK IS MUCH MORE  
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MORE PLAUSIBLE THAN THAT OF A CONCERTED ATTACK BY EGYPT AND SYRIA. THE INTERNAL POLITICAL SITUATION IN SYRIA IS MUCH MORE VOLATILE AND SYRIAN DEMANDS ON THE GOLAN ARE MUCH HARDER FOR ISRAEL TO MEET THAN ANYTHING IN SINAI. THERE ARE OF COURSE CERTAIN CONSTRAINTS, AS OUTLINED ABOVE, IN ADDITION TO THE PROSPECT OF SEVERE DAMAGE AT ISRAELI HANDS. BUT NONE OF THE CONSTRAINTS IS LIKELY BY ITSELF TO BE EFFECTIVE.

LIMITED MILITARY ACTION BY SYRIA ALONE

18. MORE LIKELY STILL, HOWEVER, IS THE POSSIBILITY OF LIMITED SYRIAN MILITARY ACTION. RATHER THAN AN ATTEMPT TO LAUNCH A FULL SCALE GROUND ATTACK AGAINST ISRAEL, SYRIA COULD ONCE AGAIN RESUME HOSTILITIES WITH MINOR ARTILLERY SHELLING, LIMITED GROUND INCURSIONS OR ISOLATED AIR ATTACKS. THEY WOULD BE UNLIKELY TO ACHIEVE ANYTHING OF SIGNIFICANCE MILITARILY- AND WE HAVE EVIDENCE THAT THE ISRAELIS ARE IN ANY CASE IMPROVING THEIR STATIC DEFENCES ON THE GOLAN HEIGHTS; BUT POLITICALLY THE SYRIANS COULD HOPE BY SUCH ACTION TO FOCUS WORLD ATTENTION ON THEIR CASE AND BRING URGENT POLITICAL PRESSURE TO BEAR ON PROGRESS TOWARDS WHAT THEY WOULD REGARD AS WORTHWHILE NEGOTIATIONS. SUCH ACTION COULD BE OF PARTICULAR RELEVANCE IN THE PERIOD LEADING UP TO THE RENEWAL DATE FOR THE UNDOF MANDATE OR AT ANY STAGE OF THE FORTHCOMING DIPLOMATIC EXCHANGES WHEN THE SYRIANS SAW ADVANTAGE IN BRINGING PRESSURE TO BEAR. THE DANGER WOULD OF COURSE BE THAT SUCH ESCALATION COULD LEAD TO ISRAELI COUNTER ACTION OR EVEN TO AN ISRAELI PRE-EMPTIVE STRIKE.

19. WE REGARD THIS AS THE MOST LIKELY MILITARY ACTION IN THE

EVENT OF WHAT THE ARABS, OR MORE PARTICULARLY THE SYRIANS,  
SAW AS A POLITICAL STALEMATE. THE SYRIANS MIGHT GO  
FURTHER: THEY COULD DECIDE ON AT LEAST LIMITED ACTION  
EVEN THOUGH SOME PROGRESS WAS BEING MADE IN OTHER ASPECTS  
OF THE ARAB/ISRAEL NEGOTIATIONS: FOR THEM PROGRESS OVER GOLAN  
IS THE MAIN OBJECTIVE. THIS COULD READILY LEAD ON TO MAJOR  
SYRIAN/ISRAELI HOSTILITIES WITHOUT ANY DELIBERATE SYRIAN PLANNING,  
EITHER AS A RESULT OF ESCALATION FROM AN INCIDENT OR AS A  
RESULT OF ISRAELI PREEMPTIVE ACTION. THE RISK OF WAR BY  
MISCALCULATION IS A REAL ONE. WE ALSO NOTE THAT, AS A  
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RESULT OF THE NEARNESS AND THE HIGH STATE OF READINESS OF THE  
COMBATANTS, WE COULD EXPECT LITTLE OR NO WARNING  
EVEN IN THE CASE OF A DELIBERATE ATTACK.

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INR-05 L-02 ACDA-05 NSAE-00 PA-01 RSC-01 PRS-01 SP-02

USIA-06 TRSE-00 SAJ-01 OMB-01 DODE-00 /077 W  
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R 210940Z NOV 74  
FM USMISSION NATO  
TO SECSTATE WASHDC 8892  
INFO ALL NATO CAPITALS 4701  
USMISSION EC BRUSSELS  
USMISSION GENEVA  
USMISSION UN NY  
USNMR SHAPE  
USCINCEUR  
USDOCOSOUTH

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ISRAELI PREEMPTIVE ATTACK

20. THIS CONTINGENCY HAS BEEN LARGELY COVERED IN PARAGRAPHS  
17 AND 19 ABOVE. THERE ARE 3 ADDITIONAL OBSERVATIONS  
TO BE MADE. FIRST, ISRAELI PERCEPTIONS AND FEARS OF SYRIAN  
PREPARATIONS, RATHER THAN THE OBJECTIVE STATE OF THOSE  
PREPARATIONS, WOULD BE THE DECISIVE FACTOR. SECOND, THE PRESENCE  
OF UNDOF (OR UNEF, FOR THAT MATTER) WOULD NOT NECESSARILY

DETER THE ISRAELIS IF THEY SAW THEMSELVES DANGEROUSLY  
THREATENED. THIRDLY, IF THE ISRAELIS WERE TO  
COME UNDER STRONG POLITICAL PRESSURE TO MAKE CONCESSIONS  
WHICH THEY COULD NOT ACCEPT, OR CONCLUDED THAT THEIR  
RELATIVE POSITIONS WAS SERIOUSLY WEAKENING,  
THEY COULD SEEK TO CONFUSE THE ISSUE BY RAISING THE LEVEL  
OF TENSION TO A POINT AT WHICH THEY COULD JUSTIFY A PREEMPTIVE  
STRIKE. PRE-EMPTIVE ACTION, EVEN OF A LIMITED NATURE,  
COULD NOT ONLY HAVE SERIOUS CONSEQUENCES FOR CONTINUED  
PEACE NEGOTIATIONS, BUT COULD ALSO PROVOKE COUNTER ACTION  
BY THE ARABS MILITARILY OR POSSIBLY THROUGH THE OIL WEAPON.

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THE OIL WEAPON

21. OIL SUPPLY AND PRICES ARE OF COURSE AFFECTED BY FACTORS  
INDEPENDENT OF THE ARAB/ISRAEL SITUATION. MANY OF THE OIL  
PRODUCERS ARE NON ARAB. NEVERTHELESS CERTAIN ARAB/  
ISRAEL CONTINGENCIES COULD PROVOKE RENEWED USE OF THE  
OIL WEAPON IN SOME FORM. THE MOST LIKELY ARE A RESUMPTION OF LARGE  
SCALE HOSTILITIES AND WHAT THE ARABS VIEW AS A STALEMATE  
IN NEGOTIATIONS EVEN THOUGH THERE WAS NO FIGHTING. THE ARABS MAY,  
HOWEVER, ALSO RESORT TO THE OIL WEAPON EVEN IN THE EVENT  
OF LIMITED HOSTILITIES IF ARAB EMOTIONS WERE AROUSED, EG  
FOLLOWING ISRAELI COUNTER ATTACKS OR STRIKES INTO SYRIAN  
TERRITORY.

22. THE SAUDI ATTITUDE, PARTICULARLY THAT OF KING FEISAL WILL,  
AS IN 1973, BE CRUCIAL. IT IS LIKELY TO BE ONE OF CAUTION.  
NEVERTHELESS THERE ARE TWO POSSIBLE TRIGGERS. FIRST, IN  
THE EVENT OF MAJOR FIGHTING LASTING MORE THAN A FEW DAYS  
OIL SANCTIONS WITH SAUDI SUPPORT WOULD BE VERY PROBABLE.  
SECOND, IF NEGOTIATIONS APPEARED TO THE ARABS TO BE RUNNING  
INTO THE SAND, SADAT AND OTHER ARAB LEADERS COULD SEEK TO  
PERSUADE FEISAL THAT THE OIL WEAPON WAS THE ONLY MEANS,  
SHORT OF RENEWED WAR, OF MAKING ANY POLITICAL PROGRESS.  
WE THINK IT POSSIBLE FEISAL WOULD BE PERSUADED THOUGH  
WE CAN OFFER NO ESTIMATE ON TIMING. A MAJOR INTEREST  
FOR FEISAL IS TO MAKE PROGRESS ON JERUSALEM WHICH CAN ONLY  
COME AT THE END OF THE NEGOTIATING PROCESS.

23. THE OTHER ARAB STATES WOULD PROBABLY HAVE LITTLE  
HESITATION IN FOLLOWING A SAUDI LEAD, THOUGH LIBYA'S ATTITUDE  
CANNOT BE FORECAST WITH ANY ACCURACY. THE BIG NON ARAB OIL  
PRODUCERS (IRAN, VENEZUELA, NIGERIA) DID NOT JOIN IN USING THE  
OIL WEAPON LAST TIME: WE DO NOT BELIEVE THEY WOULD ACT  
DIFFERENTLY ON A FUTURE OCCASIONS.

24. THERE ARE TWO MAIN WAYS IN WHICH OIL COULD AGAIN BE  
USED AS A POLITICAL WEAPON: A. CUTBACKS IN OUTPUT; B.  
EMBARGOES. HIGHER PRICES AND /OR TAXES AND NATIONALISATION  
ARE OTHER POSSIBILITIES.

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25. SPECIFIC ACTION ON PRICES AND/OR COMPANY TAXATION FOR POLITICAL REASONS CONNECTED WITH THE MIDDLE EAST IS UNLIKELY. PRICING POLICY IS A MATTER FOR OPEC, NOT OAPEC, AND UNILATERAL ACTION IN THIS FIELD BY THE ARABS ALONE WOULD BE FAR LESS EFFECTIVE THAN CUTBACKS AND EMBARGOES. OPEC PRICES COULD, HOWEVER, RISE FOLLOWING SEVERE OAPEC CUTS IN PRODUCTION. IN ADDITION FEISAL MAY ATTEMPT TO HOLD OUT THE PROSPECT OF REDUCED OIL PRICES AS AN INCENTIVE TOWARDS SUCCESSFUL NEGOTIATIONS.

26. NATIONALISATION IS UNLIKELY TO MAKE A MAJOR POLITICAL IMPACT OF THE KIND DESIRED, THOUGH IT CANNOT BE WHOLLY DISCOUNTED IN AN EMOTIVE SITUATION. THE KUWAIT GOVERNMENT IN PARTICULAR WOULD BE UNDER GREAT PRESSURE TO TAKE OVER KOC. IF THEY DID SO SAUDI ARABIAN ABU DHABI MIGHT WELL FOLLOW SUIT, ALTHOUGH THE FORMER MAY ALREADY HAVE 100PCT OWNERSHIP OF THE WESTERN COMPANIES THERE BY THE END OF THE YEAR. THE FEW REMAINING WESTERN COMPANIES IN IRAQ WOULD ALSO BE VULNERABLE. HOWEVER, THE ARABS ARE ALREADY MOVING TOWARDS FULL OWNERSHIP AND THE TIMING IN SOME STATES COULD BE DICTATED BY THEIR NEED TO PRESERVE A MODUS VIVENDI WITH THE OIL COMPANIES.

27. CUTBACKS IN OUTPUT (AND HIGHER PRICES) WOULD BE INDISCRIMINATE IN EFFECT, UNLESS SPECIAL ARRANGEMENTS WERE MADE: AND THESE COULD POSE SEVERE PRACTICAL PROBLEMS. THE MORE MODERATE ARABS, INCLUDING IN PARTICULAR THE SAUDIS, ARE MORE AWARE THAN LAST YEAR OF THE INTERDEPENDENCE BETWEEN THE WELL BEING OF THE WEST AND THEIR OWN WELL BEING. THEY ARE ALSO MORE CONSCIOUS OF THE WEST'S INABILITY TO TOLERATE A SIZEABLE REDUCTION IN SUPPLIES OF OIL. FOR THESE REASONS THEY MAY INITIALLY AT LEAST TRY TO STRIKE A BALANCE BETWEEN ACHIEVING THEIR POLITICAL OBJECTIVES AND CAUSING INTOLERABLE DAMAGE TO WESTERN COUNTRIES WHOSE POLITICAL GOODWILL AND INDUSTRIAL EXPERTISE THEY WILL BE SEEKING TO ENLIST. WE BELIEVE THAT THEY COULD REINTRODUCE PRODUCTION CUTBACKS PROBABLY TO THE HIGHEST LEVEL REACHED A YEAR AGO (25PCT). THEY MAY SEE THIS AS RELATIVELY MODERATE PRESSURE, GIVEN THE WEST'S CAPACITY FOR CONSERVATION AND OIL SHARING. THE CUTBACKS WOULD BE ADHERED TO BY ALMOST ALL ARAB PRODUCERS WITH SOME VARIATIONS IN THE

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EXACT LEVELS. IN THE EVENT OF MAJOR HOSTILITIES, THE CUTBACKS COULD BE HEAVIER OR MIGHT BE PROGRESSIVELY INCREASED.

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INFO OCT-01 IO-10 ISO-00 CIAE-00 PM-03 INR-05 L-02 ACDA-05

NSAE-00 PA-01 RSC-01 PRS-01 SP-02 USIA-06 TRSE-00

SAJ-01 NEA-06 SS-15 NSC-05 OMB-01 DODE-00 /077 W

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R 210940Z NOV 74

FM USMISSION NATO

TO SECSTATE WASHDC 8893

INFO ALL NATO CAPITALS 4702

USMISSION EC BRUSSELS

USMISSION GENEVA

USMISSION UN NY

USNMR SHAPE

USCINCEUR

USDOCOSOUTH

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28. THE ARABS MIGHT ATTEMPT A MORE SOPHISTICATED USE OF SELECTIVE EMBARGOES AND FAVOURED NATION POLICIES THAN A YEAR AGO, RELYING ON THEIR NEWLY FOUND EXPERIENCE ON INTERVENTION IN OIL COMPANY LOGISTICS. THE OBJECT WOULD BE TO PREVENT THE OIL COMPANIES FROM PUTTING INTO PRACTICE THEIR " EQUAL MISERY"POLICY WHICH SUCCESSFULLY FRUSTRATED ARAB INTENTIONS DURING THE LAST CRISIS. HOWEVER, PROVIDED THE NEW INTERNATIONAL ENERGY PROGRAMME (IEP) UNDER WHICH ALL MAJOR CONSUMERS ( EXCEPT FRANCE) WOULD POOL ALL AVAILABEL OIL IN TIMES OF CRISIS, COMES INTO BEING IN NOVEMBER, SELECTIVE EMBARGOES COULD NOT BE OPERATED EFFECTIVELY, UNLESS PERHAPS THEY WERE APPLIED ON APUNITIVE SCALE TO A LARGE NUMBER OF MAJOR WEASTERN CONSUMERS FROM THE START.

FINANCIAL WEAPON

29. THERE HAS BEEN NO INDICATION SO FAR THAT THE ARABS HAVE EVOLVED A STRATEGY FOR LINKING ANY FINANCIAL PRESSURES THAT MAY BE OPEN TO THEM TO THEIRPPOLITICAL OBJECTIVES IN  
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THE ARAB ISRAEL CONTEXT. SADAT HAS, HOWEVER, SPOKEN OF THE NEED FOR INTER ARAB COORDINATION IN RECYCLING SURPLUS OIL FUNDS AND THERE MAY HAVE BEEN A GENERAL DISCUSSION OF THIS AT THE ARAB SUMMIT IN RABAT.

30. IN PRACTICE THERE ARE A NUMBER OF CONSTRAINTS ON ARAB USE OF OIL MONEY AS A FINANCIAL WEAPON. AT PRESENT THE ARABS IN THEIR OWN FINANCIAL INTERESTS HAVE LITTLE ALTERNATIVE BUT TO KEEP THEIR MONEY WITHIN THE WESTERN SYSTEM; THIS MEANS PRIMARILY USING THE FACILITIES AVAILABLE IN NEW YORK AND LONDON. THE SOVIET BLOC HAS LITTLE TO OFFER IN THE WAY OF FREELY CONVERTIBLE INTEREST BEARING OUTLETS. ANY TRANSFER OF FUNDS ON A LARGE SCALE FROM THE CURRENCY OF ONE COUNTRY TO THE CURRENCY OF ANOTHER WOULD EXPOSE THE ARABS TO A CONSIDERABLE RISK OF SUBSTANTIAL PORTFOLIO AND EXCHANGE RATE LOSSES.

31. ON ANY RATIONAL ANALYSIS WE MUST CONCLUDE THAT THE ARABS WILL FIND THE FINANCIAL WEAPON TOO DIFFICULT AND TOO RISKY TO USE. AS HAS ALREADY BEEN POINTED OUT IN PARA 27 ABOVE, THE MORE MODERATE ARABS, INCLUDING PARTICULARLY THE SAUDIS, ARE AWARE OF THE INTERDEPENDENCE BETWEEN THEMSELVES AND THE WESTERN WORLD AND ARE UNLIKELY TO SEE ANY ADVANTAGE IN SERIOUSLY DISRUPTING THE WHOLE INTERNATIONAL FINANCIAL SYSTEM FOR POLITICAL ENDS WHICH COULD STILL REMAIN ELUSIVE. ANY REIMPOSITION OF OIL CUTBACKS AND EMBARGOES WOULD IN ITSELF DELIVER A PAINFUL BLOW TO MARKETS WHICH ARE ALREADY FRAGILE. THE ARABS DO NOT NEED TO LOOK FURTHER THAN THE OIL WEAPON, AND ANY ADDITIONAL UNDERMINING OF CONFIDENCE THROUGH ATTEMPTED MANIPULATION OF THE MONEY MARKETS COULD SERIOUSLY REBOUND ON THE ARAB WORLD ITSELF. WE CANNOT, HOWEVER, RULE OUT THE POSSIBILITY THAT IN AN EMOTIVE SITUATION THEY WILL ACT IN A WAY WHICH IN A CALMER MOMENT THEY WOULD RECOGNISE TO BE AGAINST THEIR INTERESTS AND MIGHT EVEN SEEK TO DISTURB THE FINANCIAL SYSTEM AT THE SAME TIME AS ACTIVATING THE OIL WEAPON. THE ARABS NOW RECOGNISE THEIR POWER TO DISRUPT.

#### TIMING

32. WE HAVE TRIED ABOVE TO IDENTIFY THE MAIN DANGERS AND THE SECRET

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CIRCUMSTANCES IN WHICH HOSTILITIES WOULD BE MOST LIKELY TO RESUME OR THE OIL WEAPON TO BE REACTIVATED. AN EVEN MORE DIFFICULT QUESTION IS WHEN WE THINK THE WORST COULD HAPPEN. WE CANNOT PRETEND TO BE ABLE TO GIVE AN ACCURATE ANSWER TO THIS. MUCH DEPENDS ON THE ATTITUDE OF THE ISRAELI GOVERNMENT AND THE ABILITY OF THE ARABS TO COORDINATE A NEGOTIATING POSITION. IN SOME RESPECTS WE THINK THE SITUATION LESS HOPEFUL THAN EARLIER THIS YEAR. THE RABAT SUMMIT MAY WELL HAVE CREATED NEW OBSTACLES TO NEGOTIATIONS BY GIVING PRIORITY TO THE POSITION OF THE PLO. WE EMPHASISE THE INTRACTABLE NATURE OF THE ISSUES NOW REMAINING AND WE ARE REASONABLY SURE THAT ANOTHER YEAR FREE FROM MAJOR HOSTILITIES CANNOT BE EXPECTED UNLESS THERE IS IMPORTANT PROGRESS ON THESE



ISSUES. WE DOUBT WHETHER THE REALLY CRITICAL TIME WILL ARRIVE UNTIL AFTER THE DEBATE FOR THE RENEWAL OF THE UNDOF MANDATE. BUT FROM THEN ON WE COULD MOVE INTO A DANGER PERIOD. WE SEE THE SYRIAN FRONT AS THE AREA MOST LIKELY TO HAVE RENEWED FIGHTING. WE DOUBT WHETHER THE SYRIANS WILL RESUME MAJOR HOSTILITIES IN THE COMING WEEKS (ALTHOUGH THEY MAY WELL DECIDED TO HEIGHTEN THE TENSION ON THE GOLAN HEIGHTS BY RESUMING LOW LEVEL HOSTILITIES). BUT IF DIPLOMATIC EXCHANGES DURING THE REST OF THIS YEAR LEAD IN THE SYRIAN VIEW OT A POLITICAL STALEMATE, OR IF THE ISRAELIS BECAME SERIOUSLY CONCERNED ABOUT THEIR POSITION, THE EARLY MONTHS OF 1975 COULD WELL SEE THE RESUMPTION OF WAR. SYRIAN MILITARY ACTION COULD WELL LEAD TO EGYPTIAN INVOLVEMENT AND THE APPLICATION OF THE OIL WEAPON. IF THERE WAS IN ARAB EYES A POLITICAL STALEMEATE THEN WE ALSO THINK IT POSSIBLE THAT THE ARABS WOULD REACTIVATE THE OIL WEAPON WITHOUT THE SYRIANS RESORTING TO HOSTILITIES, THOUGH THIS COULD BE IN SLOWER TIME.

15 NOVEMBER 1974. END TEXT. MCAULIFFE

NOTE BY OC/T: NOT PASSED SECRETARY'S PARTY.

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